

MINUTES
SPECIAL MEETING
CITY COUNCIL
CoMPAS Consultant Report

April 6, 2016

Ronnie Thompson, Mayor

Sally W. Sandy, City Manager

Louis E. Vinay, Jr., City Attorney

John H. Cantrell)
Forrest A. Fleming) Councilmen
Sidney Simmons)
Vacant Seat)

Also present were: Dave Stockton, Uptown Services; Sonja Marston, Assistant City Manager; Bill Harkins, Director of CoMPAS, staff, media, citizens (Bryant Lindsey).

I. The meeting was called to order in Conference Room 4 at City Hall at 8:33 a.m. by Mayor Thompson. The Mayor announced the purpose of the meeting, to receive the business assessment report from Uptown Services regarding CoMPAS.

The City Manager stated that in December the Council approved entering into an agreement with a consultant to look at the cable system. Bill Harkins & Sonja Marston worked through the National Cable Television Cooperative (NCTC) to find a consultant.

The Assistant City Manager introduced Dave Stockton with Uptown Services and shared Mr. Stockton's resume and background in the cable television field.

Stockton stated there was an executive summary of his findings and shared a PowerPoint with the highlights of the summary.

Stockton stated the study objective began with the question, "Can the broadband system performance be improved to achieve self-sufficiency or should the City divest?"

He stated that he would use the Columbia, TN, cable system (CWPS) as a benchmark/comparison to the City of Morganton. He told the Council to think about the system as three separate lines of business: video/cable, internet, and phone. He stated that bottom line is the business should not be sold at this time and shared three core reasons: 1) we have time – at least two years to divest before any write-off occurs, which gives us time to improve, 2) looking at benchmarking, we can make key, short-term changes which can impact the bottom line, 3) long-term worth is potentially more important to the community than when we first began in the cable business.

Stockton stated that now the internet is even more important than video. The role of the internet is important to the long-term growth of a community and economic development. The internet plays more of a core role in the household also. New technology is coming out and with the type of “architecture” we have in place we are poised to be able to offer gigabyte service to households as well as businesses.

Stockton posed the question and answer: Can we sell? Yes. The downside, we could lose control of our internet, which could lead to no future upgrades.

The City Manager stated that our system is a fiber backbone with coaxial cables to the individual subscribers, with the exception of some businesses and Morganton Heights. Councilman Cantrell asked about how much fiber is going to businesses. Bill Harkins stated about 50% of current businesses have fiber, with all new businesses receiving fiber.

Stockton went on to talk about the Study Scope/Methodology. He shared some financial history of the Morganton system and cable systems in general. He stated the internet is growing and what needs to be looked at is how fast video contribution is declining versus how fast the internet contribution is increasing, which is why it is important to look at each line of business.

The Mayor asked why video was declining. Stockton said there is an inability to keep up with the cost increases of cable through rate increases. Programmers like ESPN are increasing their costs so much, a system cannot raise rates enough to cover those increases. He stated that subscribers are starting to drop due to a rise in streaming services. He stated there is nothing wrong with video, but you can't fight the trend. Stockton stated that Google and Apple plan to get into the business in the near future.

Councilman Fleming asked what the networks would do when they price themselves out of the market and the shift to internet/streaming happens. Stockton feels some will migrate onto streaming services while some will fall by the wayside.

Councilman Cantrell asked about franchises in regards to Google fiber in Charlotte. The City Manager stated that North Carolina does not have franchise agreements any longer.

Stockton pointed out our current pricing and how much of that goes to the programmers. He feels that in 10-years there may be some retransmission consent reform where we will pay broadcasters less, but it's not a good outlook. The City Manager stated when we began in the cable service there were no retransmission agreements. Harkins stated those agreements began in 2009. Harkins stated last year we paid \$450,000 for programming; that used to be profit. The Manager stated that the duplicate stations (multiple station on same network) cost about \$250,000 per year, but she stated the other side of that is we get something for being in those markets with advertising, etc. for our events.

Stockton stated that Google fiber is in the Charlotte market because of internet not because of video, it's all about internet. The outlook for video contribution is that an erosion will continue to happen.

Stockton spoke to the industry trends where the total number of paid TV subscribers in the United States peaked in 2010. This is now in decline and the margin continues to drop.

Internet revenue is growing as more subscribers are taking internet; the margin is outstanding and this is the kind of business you want to be in.

Stockton stated that voice is declining, and currently 40% of U.S. homes have no hardwired phone, however, businesses continue to need phones.

Stockton stated that the strategy and investment must be looked at individually for each line of business because each is so very different.

Stockton talked about CWPS, how that system compares to ours, their history, what changes were made in their system, and how that affected their bottom line. The contribution of the internet line of business made a huge impact in their numbers.

Stockton talked about CoMPAS' current pricing line-by-line and how that might be tweaked to shift the customer base and incentivize them. He talked about eliminating super low priced tiers in order to move the customer base up. He talked about dropping or renegotiating the duplicate retransmission agreements. He stated the City needs to be more aggressive to turn things around. He stated we need to look at renegotiating the voice wholesale, because we are paying too much. Harkins stated he has contacted Momentum and requested a 40% decrease in all line charges.

Stockton stated that at some point we will need to begin growing new internet subscribers. He also suggested increasing the marketing budget for a time period.

Councilman Cantrell stated that it is difficult trying to get more subscribers while being limited to within the City limits. He asked what type of approach should be used to get the message across and to increase business. Stockton stated that CoMPAS should be brand preference, we need to use marketing to get the word out so people will take our internet. The City Manager stated she believes it is partially due to lack of awareness; we have passive marketing. She stated that all customers come in for electric so their names need to go to CoMPAS so someone can call and "sell" them on CoMPAS.

Councilman Fleming stated his opinion is that if we have more customers we make money but if we increase prices we will lose customers. The City Manager replied that for video if we lose them we can't worry about it because we are hearing that internet subscribership is more important. In today's world people will pay for internet, it's more important to them. The Manager stated that looking at the market we have more price increase room. If it costs X to deliver video, we have to charge that, we should not

subsidize from other funds. CoMPAS will need to market the internet as an option to watch video.

Stockton stated that video does not add any financial value to the business. We need to be more proactive instead of waiting for customers to come to us.

Stockton stated that if the system were sold now it would likely sell for \$6-6.5 million. Current outstanding debt is \$3.6 million. Net proceeds estimated to be approximately \$1 million. The City Manager clarified that the debt is interfund except for the bucket truck and CMTS. Stockton stated the City has time and limited debt so we are in a good position. CoMPAS needs to shift the view from a cable system to an internet/broadband system, eventually getting rid of video as everything is going to internet/broadband. We need to act aggressively and change our mindset.

Stockton suggests the City stay in this business and make Morganton a 'gig' city. He said we should be first to market gig in this area and we will do well with internet.

Councilman Cantrell asked if this was done by modem or do we need to have hardware. Stockton stated it was a matter of swapping out the current modem to 3.1 DOCIS modem and upgrade firmware for the CMTS.

Stockton went over the next steps. He stated that with the Council's approval he would come back with a detailed plan that would include pricing changes and other near term tactics. Sally stated this is a budgetary issue and the Council would need to make a decision for the future of our city. She stated that everything in today's world is competitive and internet is a big part of that. Many communities don't have what we have and they cannot compete in today's world. She stated the millennials, Broughton, the School of Science & Math all will need a lot of gigabytes and there is no guarantee that other cable/internet providers will upgrade fast enough or at all.

Stockton shared his 16-month plan which included deferring any divestiture decision in order to make some of these changes, looking at metrics monthly, and any incremental spending opportunities be reviewed. In a month or so come back with a detailed plan with concrete actions.

The City Manager stated the rate setting in the tactical list would be talked about during the upcoming budget season.

The Mayor stated this was a good 16-month plan and wondered how the other members of the Council felt about the plan. He stated he felt like they needed to look at it and would probably need some additional budgeting for professional help. He stated that Stockton had done a good job and didn't feel like members of the Council could make this decision without professional help.

The Mayor then questioned each Councilman individually regarding their comfort level of moving forward. Each Councilman stated they were comfortable with all that Stockton

shared. The City Manager recapped, stating that at this point we are going forth with Stockton's plan.

II. Adjournment – The meeting was adjourned at 10:35 a.m.

Preparation of Minutes. These minutes were prepared by Mikela D. Russell, Assistant City Clerk. Copies of all resolutions, ordinances and orders referenced in these minutes are intended to be incorporated into these minutes as if fully set forth herein. Prior to including them into the official minute book, the minutes have been read and approved by the City Manager and the City Attorney, then distributed to each member of the City Council for further review and final approval, at a subsequent Council Meeting.

Mayor

Assistant City Clerk